

Department of State

**For the Years Ended
June 30, 2001, and June 30, 2000**

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

State Capitol
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John G. Morgan
Comptroller

June 27, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Riley C. Darnell, Secretary of State
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of State for the years ended June 30, 2001, and June 30, 2000.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/th
02/065



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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April 12, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of State for the years ended June 30, 2001, and June 30, 2000.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of State's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Department of State is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of State's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of State
For the Years Ended June 30, 2001, and June 30, 2000

AUDIT SCOPE

We have audited the Department of State for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, equipment, payroll and personnel, Division of Charitable Solicitations, Division of Business Services, the Financial Integrity Act, and Department of Finance and Administration Policy 20 – *Recording of Federal Grant Expenditures and Revenues*. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

AUDIT FINDING

Cash-Receipting Function Not Adequate*

No controls are in place within the Corporate Management System (CMS) to prevent data-entry clerks from assigning the same receipt number to several documents. The CMS simultaneously documents services provided by the department and receipts the fees collected. If different receipt numbers are not assigned for each service performed, services could be documented even though the proper fee had not been received, and the department could lose revenue (page 6).

* This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of State
For the Years Ended June 30, 2001, and June 30, 2000

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Department of State

For the Years Ended June 30, 2001, and June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of State. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Secretary of State is one of three constitutional officers provided by Tennessee’s constitution. The Secretary of State, according to the constitution, is to maintain a register of the official acts and proceedings of the Governor and is to be prepared to present them before the General Assembly. Additional functions of the Secretary of State are outlined in the state statutes and regulations.

The Secretary of State is the chief officer of the Department of State. The Department of State keeps the original copies of all acts and resolutions adopted by the General Assembly and signed by the Governor. Certified copies of public and private acts are available for a nominal fee. The department is also required by statute to keep other records: the receipt and recording of corporate charters, the receipt of trademarks, the execution of notary commissions, and the receipt of state administrative regulations.

The Department of State is organized into nine major divisions: Fiscal and Administrative Services, Personnel and Development, Information Systems, Administrative Procedures, Business Services, Charitable Solicitations, Elections, Library and Archives, and Publications.

The Fiscal and Administrative Services division provides the general administrative services necessary to support the department. These include budgeting, accounting, procurement, and special administrative services.

The Personnel and Development division is responsible for the department's human resources activities. These activities include the management of employment practices, administration of employee programs, and compliance with human rights legislation.

The Information Systems division is responsible for all information technology services necessary to support the Department of State. These responsibilities include information systems and technology planning, project development and implementation, technical support, network planning and administration, and procurement assistance.

The Administrative Procedures division provides administrative judges to conduct contested case hearings for state administrative agencies and develops uniform rules of procedure for the conduct of those hearings. This division is also required to assist state agencies in complying with the Uniform Administrative Procedures Act.

The Business Services division executes the processing and recordkeeping duties of the Secretary of State relating to the following areas: Apostilles and Authentications, Corporations, Limited Liability Companies, Limited Liability Partnerships, Limited Partnerships, Mine Foreman Certificates, Motor Vehicle Temporary Liens, Municipal Clerk Certifications, Nonresident Fiduciary Appointments, Notary Commissions, Service of Process, State Deeds and Leases, Trademarks, and Uniform Commercial Code.

The Charitable Solicitations division is responsible for the registration and regulation of charitable organizations, professional solicitors, professional fund-raising counsels, and vendors that solicit contributions for the benefit of charitable organizations. The division also investigates fund-raising irregularities and takes appropriate action to assure public confidence in charitable activities.

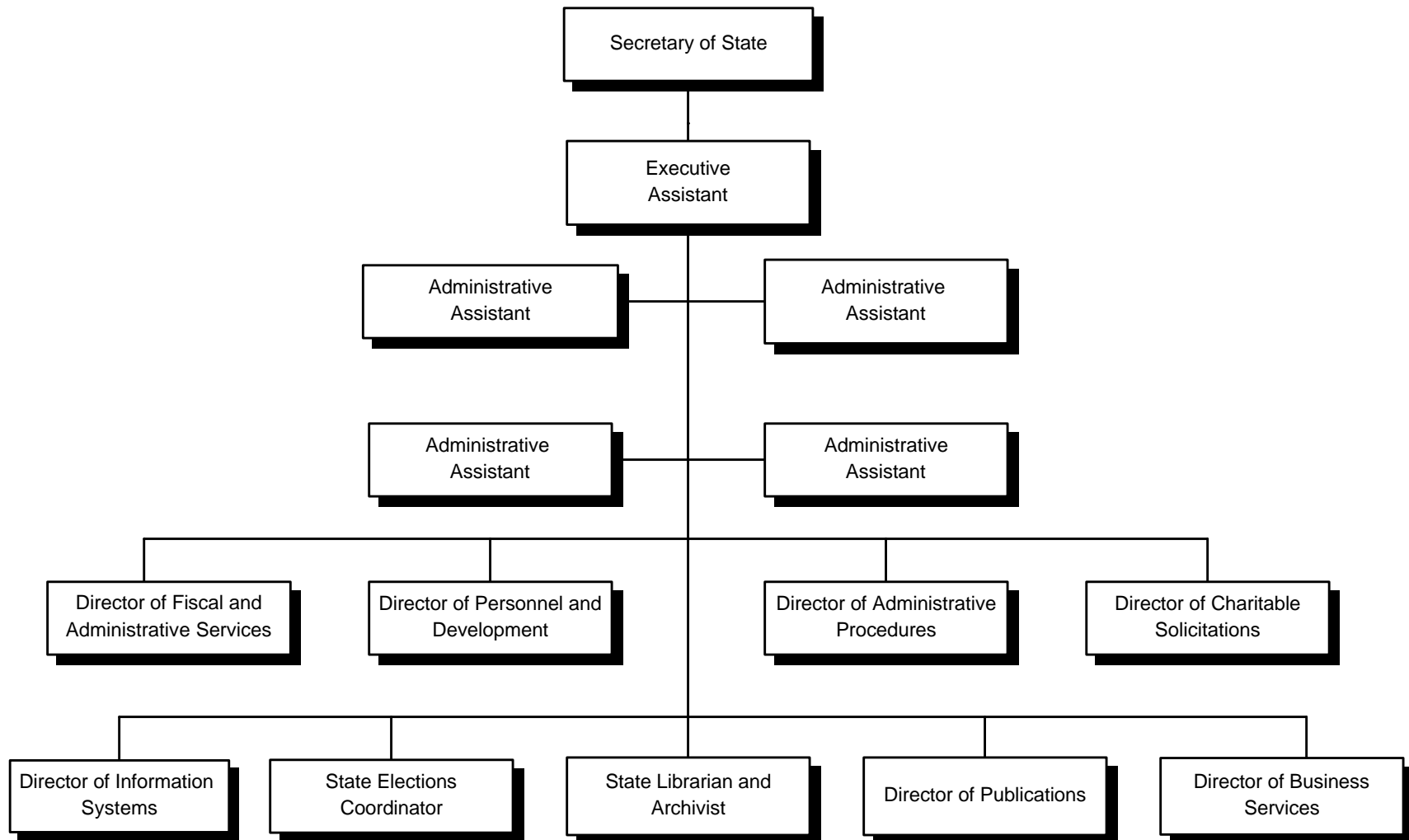
The Elections division is responsible for coordinating the activities of county election commissions and the uniformity of election procedures throughout the state. The coordinator interprets questions of the law for the benefit of all election officials, reviews election law legislation, and prepares the election manual and election handbooks for use by election officials.

The Library and Archives division collects and preserves books and records of historical, documentary, and reference value and encourages and promotes library development throughout the state.

The Publications division publishes the *Tennessee Blue Book*, *Public and Private Acts of the General Assembly*, *Tennessee Administrative Register*, *Tennessee Open Appointments Vacancy Report*, *Rules and Regulations of the State of Tennessee*, and other documents for which the Secretary of State is responsible. This division is also responsible for the creation and maintenance of the department's Web site.

An organization chart of the department is on the following page.

Department of State Organization Chart



Regional Library System

The Regional Library System is a component of the Planning and Development section of the Library and Archives division. The mission of the Regional Library System is to purchase and process library books and other materials for local public libraries, assist local libraries in developing programs and services, and train local librarians and trustees. In addition, bookmobile services are provided to rural areas, day care centers, Head Start programs, and nursing homes.

The Regional Library System consists of 12 multi-county libraries and four metropolitan single-county libraries. Each regional library is governed by a board of directors. The multi-county regional library boards have two representatives from each county in the region. The metropolitan single-county regional library boards have at least seven members representing the county and participating municipalities.

As of July 1, 1999, fiscal management of the regional libraries is being handled through the Fiscal and Administrative Services division of the Department of State. Also, as of July 1, 1999, all full-time employees of the Regional Library System were transferred to the Department of State and became employees of the Office of the Secretary of State.

AUDIT SCOPE

We have audited the Department of State for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, equipment, payroll and personnel, Division of Charitable Solicitations, Division of Business Services, the Financial Integrity Act, and Department of Finance and Administration Policy 20 – *Recording of Federal Grant Expenditures and Revenues*. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of State filed its report with the Department of Audit on February 2, 2001. A follow-up of all prior audit findings was conducted as part of the current audit.

REPEATED AUDIT FINDING

The prior audit report contained a finding concerning inadequate cash-receipting procedures for the Corporate Management System. This finding has not been resolved and is repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

The objectives of our review of the revenue controls and procedures were to determine whether

- revenue transactions were properly recorded and valid;
- cash collected during the audit period was deposited timely;
- revenue functions were adequately segregated and physical controls over cash were adequate;
- fees were charged and recorded at the correct amount;
- petty cash funds were authorized by the Department of Finance and Administration; and
- lists of new corporations and surrendered charters were furnished to the Department of Revenue.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over revenue. We also reviewed supporting documentation for these procedures and controls. Testwork was performed on a nonstatistical sample of revenue transactions for adequate support, timely deposits, agreement of amounts receipted and deposited, correct recording, and proper approval. Petty cash accounts were counted and agreed to Department of Finance and Administration authorizations. The Department of Revenue was contacted to determine whether corporate listings were promptly received.

We determined that revenue transactions were properly recorded and valid, cash was deposited timely, revenue functions were adequately segregated, physical controls over cash were adequate, fees were charged and recorded at the correct amount, petty cash funds were authorized, and the Department of Revenue promptly receives corporate listings. However, we determined that the cash-receipting function of the Corporate Management System is not

adequate, as discussed in the finding. In addition to the finding, a minor weakness was reported to management in a separate letter.

The cash-receipting function of the Corporate Management System is not adequate

Finding

As noted in the prior six audits covering 11 years, improvements are needed in the cash receipting procedures of the Corporate Management System (CMS), a computerized system that provides information on corporate filings and other service fees. The system was implemented to simultaneously document services, such as issuing notary commissions and registering trademarks, and receipt the fees collected. The majority of the fees collected flow through this system. However, no controls are in place within CMS to prevent data-entry clerks from assigning the same receipt number to several documents. Therefore, documents could be filed and recorded, even though the proper fee had not been received. Failure to correct the cash-receipting problem could result in a loss of revenue for the department.

Management concurred with the prior findings and documented and reported the cash-receipting problem to Application Programming Support (APS) in the Department of Finance and Administration. APS estimated the cost of correcting the problem would be high. As a result, Department of State management decided to replace CMS with a new system rather than make the necessary program changes to CMS. However, a new system was not installed during the audit period.

Recommendation

Management should continue to pursue the installation of a new system that will ensure documents cannot be filed unless the fee remitted by the customer is sufficient to cover all documents submitted for filing.

Management's Comment

We concur. This deficiency is being corrected through the installation of a new Corporate Management System. We are currently in the testing phase of the new system and expect full implementation within the next three months.

EXPENDITURES

The objectives of our review of the expenditure controls and procedures were to determine whether

- expenditures for goods or services were properly authorized, adequately supported, and correctly recorded in the state's accounting system;
- goods and services were received and procured in accordance with applicable regulations or requirements;
- payments were made in a timely manner;
- payments for travel were made in accordance with the State of Tennessee *Comprehensive Travel Regulations*;
- contract payments complied with contract terms; and
- records were reconciled with Department of Finance and Administration reports.

We interviewed key departmental personnel to gain an understanding of the department's procedures and controls over expenditures. We reviewed supporting documentation and tested a nonstatistical sample of expenditures to ensure that transactions were adequately supported and approved and complied with state and department regulations and requirements.

We determined that expenditures were properly authorized, adequately supported, and correctly recorded; goods and services were received and procured in accordance with applicable regulations or requirements; payments were made timely; travel payments were made in accordance with the State of Tennessee *Comprehensive Travel Regulations*; contract payments complied with contract terms; and records were reconciled with Department of Finance and Administration reports.

EQUIPMENT

The objectives of our review of the equipment controls and procedures were to determine whether

- the information on the department's equipment listed in the Property of the State of Tennessee (POST) system is accurate and complete;
- equipment purchased during the audit period was properly recorded in POST;
- lost, stolen, and surplus items were removed from POST; and
- property and equipment are adequately safeguarded.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over equipment. We reviewed supporting documentation and tested a nonstatistical sample of equipment from the POST system and a nonstatistical sample of

equipment purchased during the audit period from the State of Tennessee Accounting and Reporting System. Equipment items were physically located, and description, tag number, serial number, and location were agreed to POST. For the equipment items tested that were purchased during the audit period, the cost recorded in POST was traced to supporting documentation. A nonstatistical sample of equipment items located in the offices was traced back to POST for agreement of pertinent data. A review of procedures was performed for lost, stolen, and surplused equipment.

We determined that the information on the department's equipment listed in POST was accurate and complete and that equipment purchased during the audit period was properly recorded in POST with minor exceptions. Also, we determined that lost, stolen, and surplused items had been properly removed from POST and that property and equipment were adequately safeguarded. Although we had no findings related to equipment, minor weaknesses were reported to management in a separate letter.

PAYROLL AND PERSONNEL

The objectives of our review of payroll and personnel controls and procedures were to determine whether

- payroll and personnel functions were adequately segregated;
- payroll disbursements (wages, salaries, and benefits) were made only for work authorized and performed;
- payroll was computed using rates and other factors in accordance with contracts and relevant laws and regulations;
- payroll was recorded correctly; and
- performance evaluations were completed in compliance with personnel policies and procedures.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over payroll and personnel. We reviewed supporting documentation and tested nonstatistical samples of payroll and personnel transactions. Payroll transactions were tested for proper supporting documentation, approval, and correct calculation. Personnel transactions were tested to determine if employee qualifications were appropriate for the position, evaluations were performed annually, employees were hired from appropriate listings, terminated employees' final pay was calculated correctly, and terminated employees were not on the succeeding payroll register.

We determined that payroll and personnel functions were adequately segregated, payroll disbursements were made only for work authorized and performed, payroll was computed properly and recorded correctly, and performance evaluations were completed in compliance with personnel policies and procedures.

DIVISION OF CHARITABLE SOLICITATIONS

The objectives of our review of the Division of Charitable Solicitations' controls and procedures were to determine whether

- registration statements of charitable solicitors contained the proper information;
- registration renewals of charitable solicitors were filed in a timely manner;
- fees had been charged and recorded at the correct amount;
- policies, procedures, and operations of the compliance review section were in accordance with applicable laws and regulations; and
- procedures had been implemented to ensure that potential conflicts of interest are identified and disclosed.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over charitable solicitations. We reviewed supporting documentation and tested a sample of charitable solicitors. Policies and procedures were reviewed to determine if the compliance review section was in accordance with applicable laws and regulations and if procedures had been implemented to ensure that potential conflicts of interest were identified and disclosed.

We determined that charitable solicitors' registration statements contained the proper information, registration renewals were filed in a timely manner, and fees were charged and recorded at the correct amount. Also, policies and procedures of the compliance review section were in accordance with applicable laws and regulations, and procedures have been implemented to ensure that potential conflicts of interest are identified and disclosed.

DIVISION OF BUSINESS SERVICES

The objectives of our review of the Division of Business Services' controls and procedures were to determine whether

- policies and procedures for motor vehicle temporary liens, trademarks, and municipal clerk certifications were in accordance with applicable laws and regulations; and

- selected transactions were in compliance with applicable *Tennessee Code Annotated (TCA)* requirements and departmental policies and procedures.

We interviewed key department personnel to gain an understanding of the department's procedures and controls over Business Services. Policies and procedures were reviewed for motor vehicle temporary liens, trademarks, and municipal clerk certifications to determine if procedures were in accordance with applicable laws and regulations. We reviewed supporting documentation and tested a sample of Business Services transactions for motor vehicle temporary liens, trademarks, and municipal clerk certifications for compliance with applicable requirements.

We determined that the policies and procedures were in compliance with applicable laws and regulations. The Business Services transactions tested for motor vehicle temporary liens, trademarks, and municipal clerk certifications contained all information required by applicable *TCA* and departmental policies and procedures.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year.

Our objective was to determine whether the department's June 30, 2001, and June 30, 2000, responsibility letters were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We reviewed the June 30, 2001, and June 30, 2000, responsibility letters submitted to the Comptroller of the Treasury and to the Department of Finance and Administration to determine adherence to the submission deadline. We determined that the Financial Integrity Act responsibility letters were submitted on time.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our objectives were to determine whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes; and
- the department utilized the appropriate STARS reports as the basis for preparing the Schedule of Expenditures of Federal Awards.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. The STARS Grant Control Table and supporting documentation was reviewed.

We determined that the department complied with Policy 20. The department used the STARS Grant Module to record the receipt and expenditure of all federal funds and used the appropriate STARS reports as the basis for preparing the Schedule of Expenditures of Federal Awards.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30 each year. The Department of State filed its compliance reports and implementation plans on June 30, 2000, and June 28, 2001.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds. The Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI. A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

ALLOTMENT CODES

305.01	Secretary of State
305.02	State Election Commission
305.03	Public Documents
305.04	State Library and Archives
305.05	Regional Libraries
305.06	Library Construction Grants
305.07	Registry of Election Finance
305.08	Economic Council for Women